

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 AGR-01 /092 W

-----115648 302208Z /23

R 301104Z JUN 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 7924

INFO AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 01 OF 02 MANILA 11099

HONGKONG FOR REGIONAL TREASURY REPRESENTATIVE

E.O. 11652: N/A

TAGS: ECON, RP

SUBJECT: 1979 GOP BUDGET

REF: 77 MANILA 13892

1. SUMMARY. PRIME MINISTER MARCOS HAS SUBMITTED A 1979 "BUDGET FOR NATIONAL SOLIDARITY" FOR APPROVAL. THE PROPOSAL, EXPECTED TO BE PASSED BY THE INTERIM NATIONAL ASSEMBLY WITHIN 30 DAYS, CALLS FOR EXPENDITURES OF 34.3 BILLION PESOS (\$4,986 MILLION) AND EXPECTED REVENUES OF 28.2 BILLION PESOS (\$3,683 MILLION). TARGETS SET IN THE PROPOSAL APPEAR TO BE MORE REALISTIC THAN THE ORIGINAL BUDGET FOR THIS YEAR (NOW SCALED DOWNWARD), APPARENTLY REFLECTING CONSTRAINTS ON REVENUE GROWTH. THE PROJECTED DEFICIT IS LESS INFLATIONARY THAN THE CURRENT YEAR, BUT SCALED-DOWN PROJECTIONS FOR EXPENDITURES MAY COMPROMISE EFFORTS TO REACH GNP GROWTH TARGETS. END SUMMARY.

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2. PRIME MINISTER MARCOS HAS SUBMITTED THE NATIONAL BUDGET PROPOSAL FOR CALENDAR YEAR 1979 TO THE NEWLY-CONVENED INTERIM BATASANG PAMBANSA (IBP - INTERIM NATIONAL ASSEMBLY). THE BUDGET PROPOSAL, OFFICIALLY DESCRIBED AS A "BUDGET FOR NATIONAL SOLIDARITY," CALLS FOR EXPENDITURES OF 34.3 BILLION PESOS (\$4,986 MILLION). THIS IS JUST ONE PERCENT HIGHER THAN ANTICIPATED

EXPENDITURES ON THE 1978 BUDGET WHICH WAS APPROVED LAST YEAR (SEE REFTEL), BUT IS 4.1 BILLION PESOS (\$561.1 MILLION), OR 13.6 PERCENT, HIGHER THAN CURRENT SCALED-DOWN ESTIMATES OF ACTUAL EXPENDITURES THIS YEAR. THE PROPOSED OUTLAYS ARE MEANT TO SUPPORT THE TARGETS SET IN THE 5-YEAR DEVELOPMENT PLAN FOR 1978-82; THAT IS, REAL GNP GROWTH RATE OF 7.5 PERCENT, GENERATION OF 600,000 NEW JOBS, 4 PERCENT INCREASE IN LABOR PRODUCTIVITY AND PROGRESSIVE REDISTRIBUTION OF INCOME.

3. FOLLOWING ARE COMPARISONS OF REVENUES AND EXPENDITURES FOR 1977, 1978, AND 1979 (FIGURES IN BILLION PESOS):

	1977	1978	1979
	ACTUAL	ESTIMATE	PROPOSED
EXPENDITURES	22.6	30.2	34.3
PERCENT INCREASE	10.8	33.6	13.6
REVENUES	18.6	23.9	28.2
PERCENT INCREASE	1.6	28.5	18.0
DEFICIT	4	6.3	6.1
PERCENT INCREASE	90.5	57.5	(3.2)

4. IN HIS BUDGET MESSAGE, PRESIDENT MARCOS SAID THE MAJOR THRUSTS OF THE PROPOSED BUDGET ARE THE DEVELOPMENT OF RURAL AREAS THROUGH THE REGIONAL DEVELOPMENT PLANS (CONTINUING THE "COUNTRYSIDE DEVELOPMENT" THEME LIMITED OFFICIAL USE

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OF THE CURRENT BUDGET), AND THE ACCELERATED REHABILITATION OF SOUTHERN PHILIPPINES, PARTICULARLY THE MINDANAO AREA. THE PRESIDENT ALSO TOOK NOTE OF INCREASING RESOURCE CONSTRAINTS WHEN HE STRESSED THE NEED TO REDUCE OPERATING OR "HOUSEKEEPING" EXPENDITURES BY 5 TO 10 PERCENT TO ACCOMMODATE INCREASED DEMANDS ON GOVERNMENT FUNDS FOR CAPITAL EXPENDITURES. F.Y.I. REVENUE SHORTFALLS IN THE PAST USUALLY RESULTED IN CORRESPONDING CUTBACKS ON CAPITAL EXPENDITURES. END FYI. HE TOOK CARE, HOWEVER, TO ASSURE GOVERNMENT PERSONNEL THAT THEIR SALARIES WOULD BE "MAINTAINED AT LEVELS CONDUCTIVE TO STABILITY." THE PRACTICAL IMPLICATIONS OF THIS STATEMENT ARE NOT CERTAIN, AS NO SPECIFIC STEPS WERE ANNOUNCED. AVAILABLE FIGURES IN THE PRESS POINT TO A CONTRARY TREND WITH CURRENT OPERATING EXPENDITURES INCREASING THEIR SHARE OF TOTAL EXPENDITURES AND INFRASTRUCTURES OUTLAYS DECREASING BY 100 MILLION PESOS.

5. BUDGET ALLOCATIONS BY SECTOR FOLLOW A TREND OBSERVED IN THE PAST FEW YEARS, WITH ECONOMIC DEVELOPMENT AND SOCIAL SERVICES GETTING AN INCREASING SHARE, AND

DECLINING SHARES IN EXPENDITURES FOR NATIONAL SECURITY  
AND DEBT AMORTIZATION. THIS IS INDICATED IN THE FOLLOW-  
ING TABLE WITH COMPARABLE FIGURES FOR 1977 AND 1978:  
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- SHARE OF EXPENDITURES FOR DIFFERENT ACTIVITIES  
- (PERCENT)  
  
- 1977 1978 (EST.) 1979 (PROPOSED)

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LIMITED OFFICIAL USE SECTION 02 OF 02 MANILA 11099

HONGKONG FOR REGIONAL TREASURY REPRESENTATIVE

ECONOMIC DEVELOPMENT 39.7 40.1 41.4

SOCIAL SERVICES 19.1 20.7 25.1

NATIONAL SECURITY 16.8 15.9 14.6

GENERAL SERVICES 16.4 15.6 15.7

DEBT AMORTIZATION 8.6 7.7 3.2

6. IN BRIEFING THE IBP MEMBERS ON THE BUDGET, ACTING  
BUDGET COMMISSIONER JAIME LAYA DESCRIBED THE 1979  
BUDGET AS A MAJOR DEPARTURE FROM PAST PROPOSALS IN THAT  
IT INCLUDED NOT ONLY APPROPRIATIONS, BUT BORROWINGS  
AND REVENUE MEASURES AS WELL, INCLUDING A PACKAGE OF  
FISCAL PROPOSALS. THE GOP PLANS TO RAISE ABOUT 412

MILLION PESOS (\$56 MILLION) IN NEW TAXES FROM 16 TAX PROPOSALS TO MEET THE REVENUE TARGET OF 28.2 BILLION PESOS (\$3,863 MILLION). OF THE NEW TAX MEASURES, THE LIMITED OFFICIAL USE

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BIGGEST YIELDS ARE EXPECTED FROM A RESTRUCTURING OF THE SPECIFIC TAXES ON CIGARETTES AND ALCOHOLIC BEVERAGES (139.8 MILLION PESOS) AND FROM A CONSOLIDATION OF HOTEL TAXES (61.7 MILLION PESOS). THE 1979 REVENUE TARGET IS THE SAME AS THE INITIAL TARGET FOR THE 1978 BUDGET. HOWEVER, LATEST ESTIMATES FROM THE NATIONAL ACCOUNTING OFFICE, AS REPORTED IN THE PRESS, INDICATE THAT JUST 23.9 BILLION PESOS (\$3,274 MILLION) IS EXPECTED FOR 1978, AMOUNTING TO A SIGNIFICANT SHORTFALL, AS PROJECTED REFTEL.

7. THE IBP WILL DISCUSS THE BUDGET AND IS EXPECTED TO PASS IT WITHIN 30 DAYS. IBP MEMBERS HAVE SUGGESTED THAT THEY SHOULD PARTICIPATE MORE IN THE BUDGET PROCESS, PARTICULARLY AT THE REGIONAL LEVEL, ALTHOUGH BUDGET OFFICIALS MAINTAIN THAT BUDGET PREPARATION IS ESSENTIALLY A TECHNICAL PROCESS AND THAT PARTICIPATION BY IBP MEMBERS "WOULD MAKE IT MORE TEDIOUS". SOME CHANGES ARE NEVERTHELESS POSSIBLE.

8. COMMENT. THE 1979 BUDGET PROPOSAL IS PERHAPS MORE REALISTIC THAN THE BUDGET INITIALLY APPROVED FOR THE CURRENT YEAR. THE RELATIVELY MODEST EXPECTATIONS IMPLIED IN THE 1979 REVENUE TARGET, AN 18 PERCENT INCREASE OVER PRESENT 1978 ESTIMATES, SUGGESTS THE INCREASING DIFFICULTY FACED BY GOP FINANCIAL MANAGERS IN COMING UP WITH INCREMENTAL REVENUES NEEDED TO SUPPORT DEVELOPMENT TARGETS. LATEST ESTIMATES FOR THE NEXT FIVE YEARS INDICATE LOWERED EXPECTATIONS FOR REVENUE COLLECTIONS, WITH THE AVERAGE ANNUAL GROWTH RATE AT 0.2 PERCENT OF GNP, COMPARED TO 0.3 PERCENT ANNOUNCED LAST YEAR (REFTEL). PROJECTED EXPENDITURES AS A RATIO OF GNP OVER THE SAME FIVE-YEAR PERIOD WERE ALSO SCALED DOWN  
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FROM 19.5 PERCENT (AS ANNOUNCED LAST YEAR) TO 17.1 PERCENT. THIS COULD COMPROMISE PROJECTED GNP GROWTH, SINCE GOVERNMENT EXPENDITURES HAVE BEEN AN IMPORTANT STIMULUS TO GROWTH IN THE PAST THREE YEARS. THE PROJECTED 1979 BUDGET DEFICIT IS LESS INFLATIONARY THAN THAT OF THE 1978 BUDGET (DEFICIT/GNP RATIOS ARE

3.6 PERCENT FOR 1978 AND 3.0 PERCENT FOR 1979), BUT  
SHORTFALLS IN REVENUE PRODUCTION COULD EASILY INCREASE  
THE DEFICIT. END COMMENT. MURPHY

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Draft Date:** 30 jun 1978  
**Decaption Date:** 01 jan 1960  
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**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
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